

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Yuma Elementary School District No. 1

As of May 4, 2006



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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August 25, 2006

Governing Board
Yuma Elementary School District No. 1
450 West 6th Street
Yuma, AZ 85364-2973

Members of the Board:

In our July 12, 2005, status review report we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR). Based on the District's representation to the Arizona State Board of Education in February 2006 that it had corrected its deficiencies, we subsequently performed another status review of the District's internal controls as of May 4, 2006. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2005, audit reports and USFR Compliance Questionnaire. The purpose of our most recent status review was to determine whether the District was in substantial compliance with the USFR as of the date of that review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We acknowledge the District's diligence in implementing the recommendations in our July 2005 report. As a result, the District has complied with the USFR. However, we must emphasize that a number of deficiencies still exist, including those internal control deficiencies regarding the District's transportation operations cited in our March 2005 performance audit, that have not yet been corrected. Recommendations to correct deficiencies noted in our status review are described in this report. District management should implement these recommendations, as well as those internal control recommendations from our performance audit that are not yet fully implemented, to ensure that the District fulfills its responsibility to establish and maintain internal controls and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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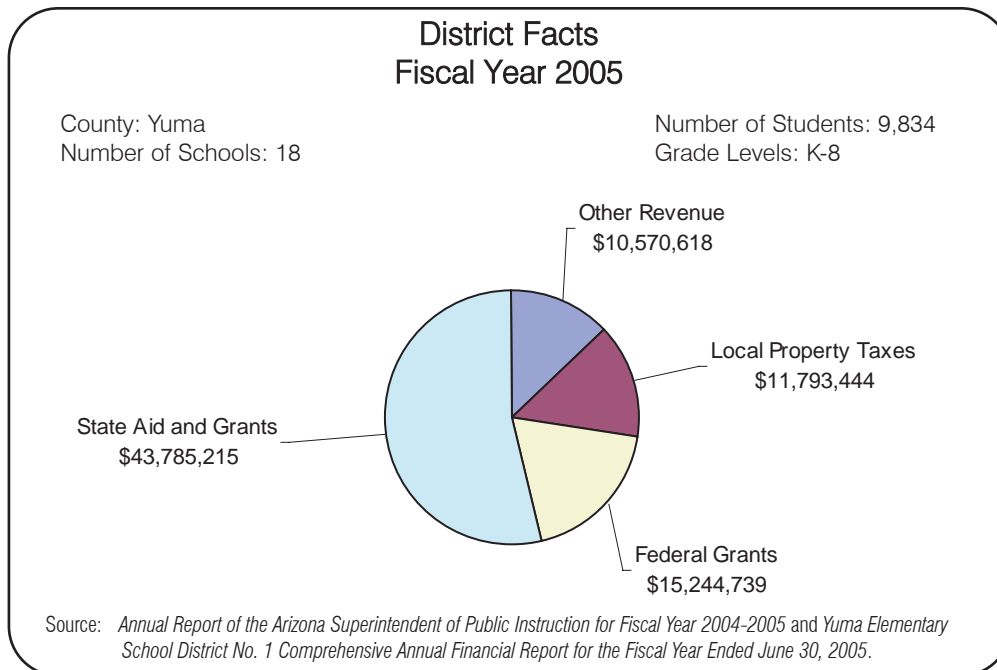
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INTRODUCTION

Yuma Elementary School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$81 million it received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District's capital assets and stewardship lists should be accurate

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to maintain accurate lists of these assets. However, the District did not maintain an accurate capital assets list since it inappropriately included individual purchases rather than individual assets, and consulting and maintenance expenditures. Also, the District did not reconcile the results of its most recent physical inventory to its capital assets and stewardship lists.

Recommendations

The following procedures can help the District strengthen controls over its capital assets and ensure that the capital assets and stewardship lists are accurate and complete:

- Maintain a detailed capital assets list that includes only equipment items with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more.
- List individual assets on the capital assets list rather than individual purchases. Exclude consulting, repairs, and maintenance expenditures from the list.
- Perform a physical inventory of all equipment and vehicles, including those on the stewardship list, at least every 3 years.
- Reconcile the physical inventory results to the capital assets and stewardship lists. Investigate and correct all differences noted.

The District should strengthen controls over expenditures

The District spends tax dollars to pay its employees and purchase goods and services, so it is essential that the District follows procedures designed to help ensure that all expenditures are approved, properly recorded, and supported. However, the District did not ensure that all employee time sheets were approved, and paid a substitute teacher more than the amount approved by the Governing Board. In addition, the District did not verify that sufficient cash was

USFR pages VI-E-2 through 5 describe the items that should be recorded on the capital assets list and how they should be recorded.

The District did not always obtain proper approval of employee time sheets.

available in cash-controlled funds before authorizing expenditures. Finally, the District did not always obtain three written or oral price quotations for purchases that required them.

Recommendations

The following policies and procedures can help the District strengthen controls over expenditures:

- Require that employees and supervisors sign all time sheets.
- Obtain Governing Board approval for any substitute teacher compensation that deviates from the District's substitute compensation schedule.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures from the funds.
- Obtain oral price quotations from at least three vendors for purchases costing between \$5,000 and \$15,000.
- Obtain written price quotations from at least three vendors for purchases costing between \$15,000 and \$33,689.
- Retain documentation of all quotations received. If the District cannot obtain three quotations, document the vendors contacted and their reasons for not providing quotations.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

The District's controls over student activities monies should be strengthened

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight. Specifically, student activities cash receipts were not always supported and deposits were not always made in a timely manner. In addition, the District did not always verify that student clubs had sufficient cash available before disbursements were authorized.

Student activities cash receipts were not always deposited in a timely manner.

Recommendations

To strengthen controls over student activities monies, the District should deposit student activities cash receipts daily, if significant, or at least weekly. In addition, the District should ensure that student activities receipts are supported by cash collection reports and other documentation. Finally, the District should only authorize disbursements from student clubs when sufficient cash is available for the individual clubs.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not always prepare student entry forms, or when prepared, the District did not record the same entry dates on the entry forms as it did on the computerized attendance system. In addition, the District's computerized attendance system did not always calculate partial-day absences correctly.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should prepare entry forms for all students and have a second employee verify that entry dates in the system agree with the entry forms. In addition, the District should ensure that its computerized attendance system calculates partial-day absences in accordance with ADE's *Instructions for Required Reports*.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.